BROKEN TRUST

Fixing the Unemployment Insurance Trust Fund in Massachusetts

A Report of the
Senate Committee on Post Audit and Oversight
April 2003

Massachusetts Senate
The Honorable Robert E. Travaglini
Senate President

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Francisco, Haverhill

Broken Trust

Tammy, Lowell

This report is dedicated to the hard working men and women of the Commonwealth who, through no fault of their own, find themselves unemployed. These men and women, like those pictured on this page, play by the rules, pay their taxes, raise their families, and make Massachusetts the great state it is today. From generation to generation, these employees depend upon the safety net of the Massachusetts Unemployment Insurance Trust Fund to stop a family's economic fall. Broken Trust highlights the problems within our existing unemployment insurance system and suggests reasonable alternatives to fix the Trust Fund so future generations will benefit from the commitment Franklin Delano Roosevelt made in 1935 to our Nation's unemployed.

Juliana, Lawrence

This is their story.

Chris, Acushnet

Jimmy, Brockton

Senate Committee on Post Audit and Oversight

Senator Marc R. Pacheco, Chairman

It shall be the duty of the Senate Committee on Post Audit and Oversight (established under Section 63 of Chapter 3 of the General Laws) to oversee the development and implementation of legislative auditing programs conducted by the Legislative Post Audit and Oversight Bureau with particular emphasis on performance auditing. The Committee shall have the power to summon witnesses, administer oaths, take testimony and compel the production of books, papers, documents and other evidence in connection with any authorized examination or review. If the Committee shall deem special studies or investigations to be necessary, they may direct their legislative auditors to undertake such studies or investigations.

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· EXECUTIVE SUMMARY ·

> "We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job."
>
> *Franklin Delano Roosevelt, August 14, 1935 upon signing the Social Security Act of 1935 establishing the Unemployment Insurance program.*

The Unemployment Insurance (UI) Trust Fund is the mechanism through which the state pays UI benefits to workers who lose their jobs through no fault of their own. The Fund has decreased from $2 billion in 2001 to approximately $126 million at the end of 2003[i] – creating a broken trust in the Massachusetts unemployment insurance system. Based on this precipitous decline, the Senate Post Audit and Oversight Committee investigated the stability of the Fund and the effects of insolvency on recipients and employers. The Committee has found the following:

- The Fund is broken and will require federal loans to pay benefits this year.
- UI is a wage replacement benefit, but over the past decade employer costs have decreased 34% while wages have increased more than 73%.
- UI benefits are critical as they are often the only source of income for recipients. In Boston, UI benefits are $915 per month less than the basic family budget.[ii]
- If no action is taken, employer UI costs will automatically increase 66% for the next three years.

During the investigation, the Committee met with employers, labor leaders, state agencies, and most importantly, UI recipients. Citing their experiences with unemployment and their successes through the UI program, these individuals described the importance of this program in helping them through one of the most difficult times in their lives.

This safety net is not a wasteful or overly generous program. It provides approximately half of an employee's previous salary during a time-limited job search. The average weekly benefit in Massachusetts is $362, but almost half of all beneficiaries receive less than $250 per week.[iii] Although UI only replaces part of a worker's wages, it is critical during economic downturns as benefits are spent directly into the local economy.

Without reforms the UI Trust Fund in Massachusetts will soon be in deficit. During this uncertain economy, workers and the unemployed need this safety net more than ever. Massachusetts must take immediate action to protect the working families of the Commonwealth from the harsh financial realities of unemployment and to save employers from skyrocketing UI costs.

· KEY FINDINGS ·

THE UI TRUST FUND IS BROKEN

- Overall, the UI Trust Fund is in a crisis. The balance has decreased more than 90% in the past three years and will require federal loans to pay benefits before the end of 2003.

- The Massachusetts UI trust fund ranks among the worst-financed in the nation.

- UI is a wage replacement benefit. Massachusetts has the third highest wages[iv] in the nation, but only the seventh highest UI costs.[v]

EMPLOYER COSTS HAVE DECREASED

- Based on the unchanged taxable wage base and rate schedule overrides, UI costs have decreased 34% in the past decade.

- The taxable wage base has not increased since 1992, despite a 73% increase in wages over that same period. If the taxable wage base had been indexed in 1992, it would be $18,664 today.

- Without UI finance reforms employers will contribute at schedule "G" for the next three years, resulting in a minimum of a 66% increase in UI costs.

- Federal borrowing is not a long-term solution to the current crisis. If the state does not repay federal loans on time, employers will be subject to additional interest payments and continued unpredictable UI costs.

- The current experience rating system does not fairly distribute UI costs among the employers that use the system the most.

BENEFITS ARE CRITICAL

- UI is a "safety net" benefit that recipients use for basic living needs, such as food and shelter. Most unemployed have no other source of income during their job searches and often deplete savings and retirement accounts, use social programs, and increase debt.

- The composition of the workforce has changed considerably over the past several decades. Current benefits and eligibility requirements do not reflect these changes.

- UI benefits are spent directly back into the local economy. The program is a proven economic stimulus that maintains consumer spending during recessions.

- DET requires additional oversight provisions to prevent payment of fraudulent UI claims.

· Key Recommendations ·

To ensure the long-term health of the UI Trust Fund, maintain fair benefits for the unemployed, and create predictable costs for employers, the Senate Post Audit and Oversight Committee recommends the following:

1) The Legislature should enact reforms immediately to ensure employers do not pay a schedule "G" contribution rate, or a 66% increase, for the next three years.

2) The taxable wage base should be adjusted to $13,800 in 2004. An adjustment to $12,800 with a Schedule D may address the funding shortfall next year, but if DET predictions are too optimistic this proposal will add risk to the long-term health of the Trust Fund.

3) The taxable wage base should be indexed to the state average weekly wage in 2004 to ensure employer contributions match future wage growth.

4) Massachusetts must maintain the current level of UI benefits and improve eligibility and benefit guidelines to reflect the changing nature of the workforce. The state should consider options to help unemployed spouses of those in active military service.

5) Massachusetts should improve the distribution of UI costs, through modest experience rating reform, to reflect utilization of the Trust Fund.

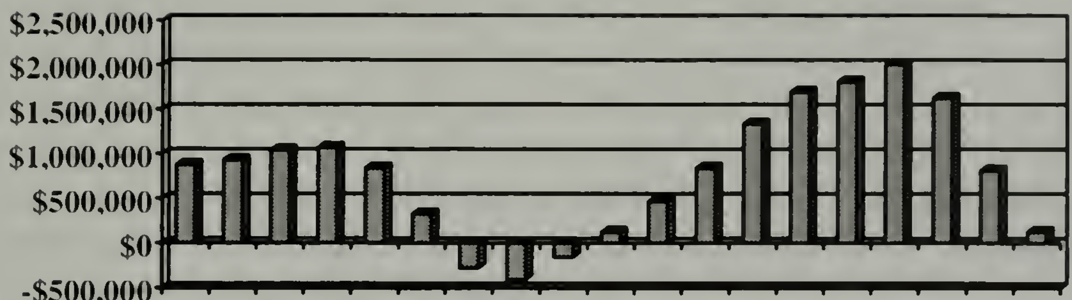
6) If the Trust Fund becomes insolvent before the end of the year, the Legislature should consider a small 2003 surcharge, minimal federal loans, or an interim January 2004 employer contribution.

DET predicts there will be $1.335B in benefit payments in 2004 and current revenues are $925M/year at the modified Schedule "B". There will be a funding deficit of approximately $400M in 2004; therefore the Legislature must consider the following:

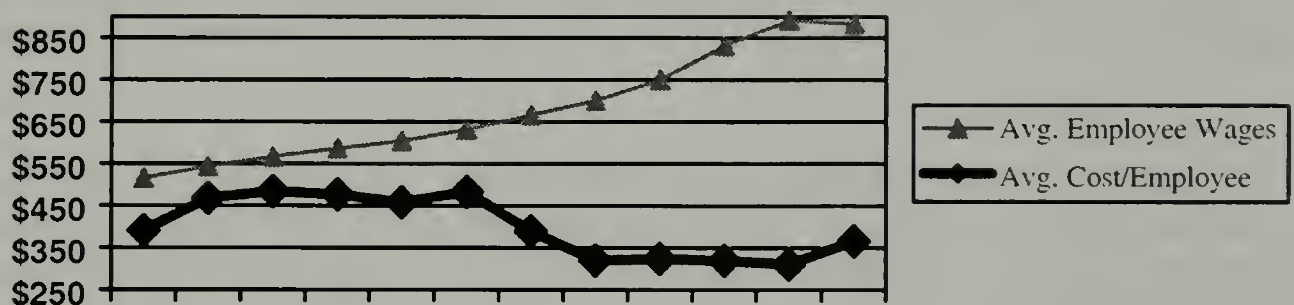
	Reforms	**2004 Revenues (M)**
Option A	Interim surcharge	$30
	Schedule C	$130
	Adjust wage base to $13,800	$190
	Index wage base (2004)	$30
	Total	$380
Option B	Schedule D	$250
	Adjust wage base to $13,800	$190
	Index wage base (2005)	$0
	Total	$440
Option C	Increase wage base to $18,800	$490
Option D	Schedule G	$610

The Committee recommends either Option A or B, which are responsible approaches to restore Trust Fund solvency and compensate for substantial employer cost decreases over the past decade. Without these reforms, the Commonwealth runs the risk of an insolvent Trust Fund, overwhelming costs increases for employer, and cuts to this vital safety net for workers. Action is needed immediately to fix this broken trust.

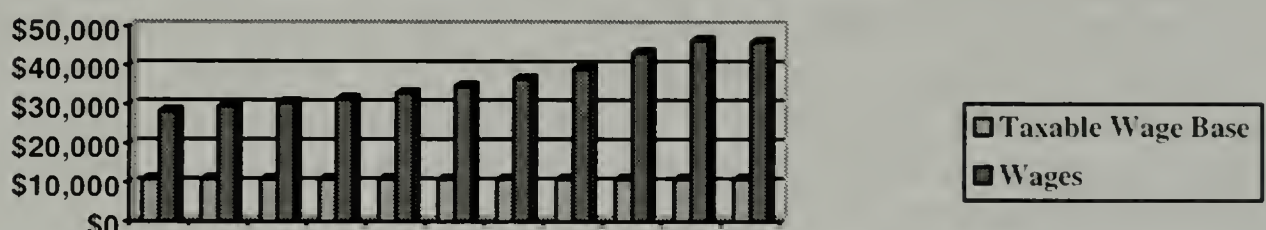
UI Trust Fund in Massachusetts



Employer UI Costs vs. Wages in Massachusetts



Taxable Wage Base vs. Wages in Massachusetts



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[i] Massachusetts Division of Employment and Training. *Quarterly Trust Fund Report*. Boston: DET, Jan. 2003; Senate Post Audit & Oversight Committee projections based on previous Trust Fund trends.

[ii] Boushey, Heather & Jeffrey Wenger. "Coming Up Short: Current Unemployment Insurance Benefits Fail to Meet Basic Family Needs." See http://www.epinet.org/Issuebriefs/ib169.html, visited 31 Mar. 2003.

[iii] Chimerine, Lawrence et al., United States Department of Labor. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades." Unemployment Insurance Occasional Paper 99-8. Washington, D.C.: DOL, 1999.

[iv] Economic Policy Institute. "Analysis of Current Population Survey." Washington, D.C.: EPI, Feb. 2003.

[v] Massachusetts Taxpayers Foundation, Associated Industries of Massachusetts, Greater Boston Chamber of Commerce. *Fragile Progress: Reigning in Massachusetts' High Health Care Costs*. Boston: Massachusetts Taxpayers Foundation, Feb. 2003.

· History of Unemployment Insurance ·

The Unemployment Insurance (UI) program was introduced by President Franklin Delano Roosevelt as part of the Social Security Act of 1935. This program was established in response to the Great Depression and was designed to provide temporary financial assistance to workers who lost their jobs through no fault of their own, such as through plant closings or layoffs. As part of a comprehensive legislative package that provided assistance to the retired elderly and impoverished children, UI became a safety net for almost all employees in the country. Additionally, UI was designed to be an economic stabilizer to maintain consumer spending during times of high unemployment.

This program provided critical relief to the more than 12 million people out of work in the early 1930s[1], which was one quarter of the nation's workforce.[2] During the time UI was created, the workforce was based primarily on a predominantly male, one bread-winner per household system. Over the years, however, the workforce evolved to include more women, people with part-time jobs, and workers with multiple jobs.[3] "Since the 1950s, part-time work has nearly tripled in the United States, now representing about 17 percent of the workforce." [4]

This program was established as a shared responsibility between federal and state governments, in which each state established a UI benefit and finance system mechanism in compliance with federal regulation. In 1937, the federal government instituted the Federal Unemployment Tax Act (FUTA), a payroll tax to fund each state's UI administrative costs. The Secretary of Labor approved each state's UI program to ensure it met FUTA guidelines. The UI system was officially placed under the jurisdiction of the Department of Labor (DOL) in 1949.[5]

Employers are required to pay the federal FUTA tax for each employee. In exchange for having a state UI system employers receive a 5.4% credit on their FUTA tax payments. As a result, net federal taxes amount to 0.8%, or a maximum of $56 per employee annually.[6] FUTA funds are directed back to the states to pay for the administration of the UI system. When the UI program was first established employers were required to pay taxes that nearly matched the level of benefit payments. Since then, employers' UI contributions have steadily declined.[7]

In addition to individual state trust funds, there are three federal trust funds established to pay for the UI program. The Employment Service State Administration (ESSA) trust fund finances UI administrative costs along with other related programs. The Extended Unemployment Compensation Account (EUCA) trust fund is established to pay for the federal portion of UI Extended Benefits. The Federal Unemployment Account (FUA) provides loans to states when high unemployment rates deplete their trust funds.[8]

While there have been programmatic changes to UI over the years, the federal-state relationship has remained unaltered. In 1954, the Reed Act was passed, requiring DOL to distribute FUTA surpluses to the states to maintain the health or "solvency" of the fund. During the 1960s, DOL instituted programs to further assist the workforce, including the Manpower Development and Training Act of 1962 and the Employment and Training

Administration Act of 1963.[9] The Federal-State Extended Unemployment Act of 1970 created the Extended Benefit program. This program provides extended benefits to workers who have exhausted their benefits during periods of high unemployment. This provision enables individuals to collect up to 13 additional weeks of benefits.[10] In 1987, under the Reagan administration, Congress instituted a federal income taxation of unemployment benefits.[11]

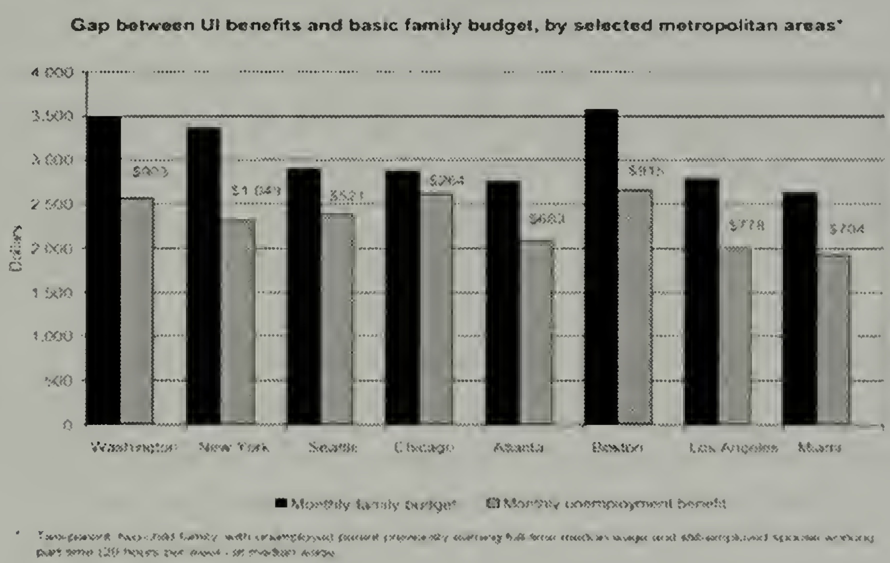
Recently, there has been an effort in the federal government to change the structure of the program. Referred to as "UI devolution," the funding of UI administrative costs would shift from the federal government to the states. The devolution proposal would phase out the FUTA tax completely, make consolidated Reed Act payments to the states, and ultimately require the states to finance UI administration without federal assistance.[12] In addition, President Bush's economic plan recommends establishing Personal Reemployment Accounts for unemployed workers who are "likely to exhaust their benefits".[13] Such individuals would be eligible to receive up to $3,000 for job search expenses, such as job training, transportation, and relocation. They would not, however, be eligible for most of the additional training and employment services provided under the current UI system.[14]

The Unemployment Insurance program was a cornerstone of FDR's New Deal legislation designed to provide protection against the instability of economic downturns such as the Great Depression. Economists support UI because it maintains consumer spending during recessions and focuses funds on areas hardest hit by joblessness.[15] It has proven an extremely effective insurance program for United States workers over the past 80 years, providing assistance to more than 400 million unemployed people.[16] During this current recession, federal and state governments bear great responsibility to ensure the Unemployment Insurance safety net is available for current and future generations.

· MASSACHUSETTS: UI OVERVIEW ·

In Massachusetts, the Division of Employment and Training (DET) administers the Unemployment Insurance (UI) system. While the Legislature determines UI benefit levels and eligibility, DET is responsible for all program operations, including UI Trust Fund management. Almost every employer is required to participate in the UI system and all eligible employees can receive benefits.[17] Overall, DET serves more than 150,000 employers and 390,000 unemployed in the Commonwealth each year.[18]

The primary goal of UI is to provide a basic level of assistance to unemployed workers during a temporary job search. Beneficiaries receive approximately half of their previous wages for a time-limited period and for most it is their only source of income during unemployment. As Massachusetts has the third highest cost of living in the nation, even people who receive the maximum amount of benefits find themselves struggling to stay afloat. This burden is even worse for low-income families who live from paycheck to paycheck. Recipients are often forced to deplete savings, retirement funds, and assume additional debt to afford basic living needs, such as food, clothing or housing. The table below indicates recipients in Massachusetts face a substantial shortfall compared to other major cities.[19]



· UI BENEFITS·

ELIGIBILITY

To be eligible for UI in Massachusetts, a claimant must meet two main criteria: monetary eligibility and a qualifying reason for job separation. In the vast majority of situations, workers must also be "able and available" to search for full-time employment.

- Monetary Eligibility: In order to meet monetary guidelines, claimants must earn 30 times their weekly *benefit rate* (typically 15 weeks) and have total earnings of at least $3,000 during the base period. Massachusetts has two base periods. Most people fall under the *primary base period*, which calculates eligibility using wages paid in the last four completed quarters prior to filing a UI claim. If an individual is

not eligible under the primary base period, DET automatically recalculates the information using the *alternate base period*. This uses the most recent earnings in an incomplete quarter, plus the three most recent completed quarters. In limited situations, recipients may use the alternate base period if their most recent earnings would increase benefits by 10%. In 2002, approximately 8,000 recipients were eligible through the alternate base period.[20]

- Job Separation: DET reviews each claimant's job history to ensure involuntarily separation from work. Claimants are considered ineligible for UI if they leave work for a disqualifying reason, such as voluntarily leaving a job, or termination resulting from deliberate misconduct or willful disregard of employers' interests.[21] Claimants may provide "urgent, compelling and necessitous" reasons to voluntarily quit a job, such as unexpected changes in childcare arrangements.[22] In 2001, lawmakers in Massachusetts passed legislation to allow victims of domestic violence to voluntarily leave a job to protect their safety.[23]

Once eligible, recipients must demonstrate they are "able and available" for work that matches their skills, training and experience. Each week, beneficiaries forward information to DET, either by mail or telephone, to indicate an active search for employment.

Massachusetts law generally restricts eligibility to workers seeking full-time employment. There is a provision, however, that allows certain recipients to work part-time and receive UI benefits. For example, a claimant who previously held a part-time job or who has a new or worsening disability may be eligible to receive UI benefits while seeking a part-time job.[24] Certain workers can receive unemployment benefits if they are working part-time jobs. An earnings disregard of one-third of the unemployment check is applied to wages, after which benefits are reduced on a dollar-for-dollar amount.

Claimants who hold multiple jobs and lose both may find their unemployment checks are reduced through a *constructive deduction*. This occurs when an individual quits or is terminated from a part-time job within two months of an involuntary layoff-deductions are then taken as if the individual was still working the part-time job.

The size of the part-time workforce in Massachusetts is above the national average, with more than 590,000 residents in such jobs.[25] In conjunction with those forced to work multiple jobs, this trend is indicative of the changing composition of the workforce. Today, high living costs often require two incomes in the household, either through a spouse working part-time or the primary provider taking a second job. UI generally does not permit benefits for workers who must look for part-time work due to family care taking needs.

SUCCESS STORY IN LAWRENCE[26]

Juliana, married with two children, was laid off from a major telecommunications company after 14 years. As both parents in this family needed to work, Juliana looked to medical field for her new career. After job training, she became a medical assistant at a community health center in Lawrence. "I would probably still be unemployed if I didn't have these benefits. Now I would like to return to school and eventually become a radiology technician."

BENEFITS

Eligible UI recipients receive 50% of their previous salaries during their job searches. Benefits may not exceed 57.5% of the state's *average weekly wage*, which is determined by DET each October. Currently, the maximum weekly benefit is $507, but almost half of the state's beneficiaries receive less than $250/week.[27] UI benefits are considered income and are therefore subject to state and federal income taxes.

To help offset the cost of providing for a family, eligible beneficiaries may receive an additional $25 each week per dependent. This *dependency allowance* is capped at 50% of the recipient's weekly average benefits. For example, a recipient with three children who receives $100/week would receive an additional $50, not $75, through this provision. Only the "primary care giver" is eligible to receive the dependency allowance, even if both parents live in the same house and are unemployed at different times.

MAKING ENDS MEET[28]

Paula, married with one child, was recently laid off from a medical company in Lowell. Paula receives unemployment insurance benefits and an additional $25/week for her daughter. She discussed how even with benefits, it is difficult to make ends meet. "I can only buy the necessities. I stopped going to big stores and I try to save as much money as I can. There is only a little extra money for my daughter, but it helps to pay for her needs."

A recipient's benefit length is determined by calculating certain earnings to establish a weekly benefit amount, which is then applied over 30 weeks. Massachusetts is one of two states in the country that offers 30 weeks of benefits; all other states offer 26 weeks. The average benefit duration in Massachusetts is approximately 18 weeks, which means that many recipients do not qualify for the full duration or find new employment before benefits exhaust. Also, during periods of high unemployment states may apply for federal benefit extensions, which are generally 13 weeks. These federal extensions pay UI benefits for all qualifying recipients after the 26th week. While Massachusetts' law provides recipients with 30 weeks of benefits, it reverts to 26 weeks during a federal extension.[29] As there have been three federal extensions since March of 2002, Massachusetts has not had to pay for the additional four weeks of benefits in more than one year.

All recipients have a one-week "waiting period", during which they do not receive benefits. This requirement was waived following the September 11th tragedy, but was recently reinstated.

TRAINING

Through the Training Opportunity Program, commonly referred to as Section 30 programs, eligible recipients can extend their benefits up to an additional 18 weeks and waive the work search requirements to participate in approved training programs. Additional weeks of benefits are not experience based as they are provided through the solvency account. Training programs are financed through other sources, such as federal grants, and not the Trust Fund. The Section 30 program includes vocational training, computer classes, and both English as a Second Language (ESL) and General Equivalency Diploma (GED) preparation. To qualify for this extension, recipients must apply within the first 15 weeks of eligibility and select a training program that can be completed within one year. Certain technical courses are two-year programs and are excluded from Section 30 guidelines. In 2002, approximately 7,000 of almost 400,000 UI recipients applied for and received Section 30 training.[30] This relatively low enrollment rate indicates the need for better-coordinated outreach and eligibility reform.

DET implemented the Worker Profiling System (WPS), a computerized system that tracks unemployed recipients who are most likely to exhaust their benefits. Through this system, DET may withhold benefits if such a recipient is not compliant with required reemployment programs. One-Stop Career Centers located throughout the state administer the WPS, as well as additional career training services, such as career counseling and job search workshops. These Centers are federally funded through the Workforce Investment Act (WIA) and the Wagner-Peyser Act. In the event of a large layoff, the Commonwealth Corporation's Rapid Response Team works in conjunction with these Centers to immediately provide workers with information about benefits and job search options. This independent team, comprised of labor representatives and state workforce officials, is critical in applying for emergency federal job training grants. While the UI Trust Fund does not pay for job training, it is essential in returning unemployed to the workforce and reducing the strain on the Trust Fund, by assisting workers to secure more stable, higher wage jobs.

BENEFITS OF JOB TRAINING[31]

Jimmy worked at a distribution center in Norton for 29 years when he was laid off along with 400 other employees. Jimmy began to use the Brockton career center and quickly learned about training opportunities available through UI. Soon, Jimmy was hired as a career counselor and has helped 380 of the 400 laid off workers find new employment or other options. "I know some of these people better than my family. I won't be happy until I reach every last one of them."

HEALTH INSURANCE

UI recipients in Massachusetts have access to the *Medical Security Plan* (MSP), administered by Blue Cross/Blue Shield. It is the only health insurance assistance plan in the country for unemployed workers. The MSP is funded by employers through a $16.80 per employee annual assessment, a rate that has remained unchanged since 1988. Employers with five or less employees pay no contribution, however their employees are still covered.

The MSP has two programs: The Premium Assistance Plan and Direct Coverage. The Premium Assistance Plan offers premium subsidies of up to 80%, with a cap of 100% of the MSP's average premium assistance for the prior year.[32] Direct Coverage is an income-based insurance plan for recipients who do not qualify for the Premium Assistance Plan. COBRA is an option for approximately 65% of the national workforce, but only 7 % enroll because of the excessively high premium costs.[33] Increases in private health insurance premiums, coupled with cuts to many state insurance programs, often make the MSP the only affordable health insurance option for unemployed people.

In 2001, more than $100M from the Medical Security Trust Fund was used for non-MSP reasons.[34] The majority of expenditures from this Fund have been diversions to other health care programs. While such transfers are for worthwhile causes, such as the Uncompensated Care Trust Fund and Catastrophic Illness in Children Relief Fund, a diminished Medical Security Trust fund will adversely impact the effectiveness of the program.

· UI FINANCE ·

TAXABLE WAGE BASE

To pay for UI benefits, employers are subject to a state payroll tax on a portion of employee wages called the *taxable wage base*. The wage base is the first $10,800 of each employee's wages, regardless of the employee's total salary (i.e. the same for a $20,000 or $200,000 annual salary). The wage base, which requires legislative action for adjustment, was set at

$13,000 in 1992 but changed only months later to $10,800. It has not been increased from $10,800 in the past 11 years.

EXPERIENCE RATING

The amount that employers contribute on the taxable wage base varies on several factors, including *experience rating*. This merit-based system links payments to the amount of benefits paid to their former employees. Experience rating is designed to create parity in UI costs by requiring greater contribution from those who use the system the most. Therefore, employers with more layoffs and whose employees collect more UI benefits are required to contribute to the Trust Fund at a higher rate in the following year. Massachusetts has a "modified" experience rating system, which places limits on how much or little an employer must contribute, regardless of the amount of layoffs.

To determine experience rates, DET administers an account for each employer called the employer reserve account, which documents all UI payment and benefit activity. DET assesses each employer's reserve account when it pays benefits to a former employee or when the employer makes UI payments to the Trust Fund. At the end of each September, DET divides each employer's account balance by the employer's total covered wages to determine the reserve percentage. An employer with more benefits paid to former workers than overall contributions will have a negative percentage. Conversely, an employer with more contributions than benefits paid to former workers will have a positive percentage.[35] Table 1 shows the specific contribution rate assigned to every account reserve percentage.

As the UI system is "modified," it has maximum and minimum limits on employer payments. Currently, an employer's maximum annual contribution is $780/employee, and minimum annual contribution is $143/employee, regardless of the amount of layoffs.

RATE SCHEDULES

Another mechanism to adjust employer contributions and maintain Trust Fund reserves is *rate schedules*. If high benefits are paid from the Trust Fund that deplete the balance during any given year, the following year requires a higher "schedule" of payments. There are eight schedules and each contains different employer tax rates to adjust total contributions to the Trust Fund for the following year. Each schedule has a letter ranging from "AA", the lowest level of employer contribution, to "G", the highest. As outlined in Table 2, the Trust Fund's reserve percentage (ratio of wages to balance) automatically determines the schedule of contribution.[36]

The reserve percentage of the Trust Fund has a trigger mechanism to automatically increase the schedule if the balance becomes too low relative to wages. Currently, each schedule change adds or removes approximately $120M in employer contributions to the Trust Fund, which is approximately $40/employee per year.[37] Massachusetts is currently at a Schedule "B", which provides about $925M to the Trust Fund each year at an average cost of $362/worker to businesses. A shift to Schedule "C" would have increased business costs to approximately $40/employee and overall contributions to $910M.

The trigger automatically establishes the rate schedule each year based on the Trust Fund *reserve percentage*. The Legislature has pre-empted this mechanism for nine of the past ten

years to reduce business UI costs. In 2002, the state had a total covered payroll of $113.6B and a Trust Fund balance of $812M, which would have triggered a "G" schedule.

TABLE 1. How rate schedules work:

1. Divide the end of the year UI Trust Fund balance by the state's total covered payroll to determine the reserve percentage: $812M/113.6B = 0.7%.
2. The 0.7% reserve percentage matches a rate Schedule "G".
3. In 2002, the automatic trigger was overridden and set at a Schedule "B".
4. Employers account reserve percentage has a contribution rate for Schedule "B". The employer pays this rate (e.g. 7.3%) on the taxable wage base of each employee.

1. **2002**
$812M (Fund)
$113.6B (payroll) = 0.7%

3. In 2002, trigger was overridden and set at a "B" schedule.

2.

EXPERIENCE RATE TABLE
UNEMPLOYMENT COMPENSATION FUND RESERVE PERCENTA
(MGL 151A:14)

	AA	A	B	C	D	E	F	G
Employer Account Reserve %	>3.0%	2.6% - 3.0%	2.2%- 2.6%	1.7% - 2.2%	1.4%- 1.7%	1.1% - 1.4%	0.8% - 1.1%	< 0.8%
Negative								
14 or more	6.5	6.9	7.225	7.7	8.1	8.5	8.9	9.3
13.0 – 14.0	6.3	6.7	7.025	7.5	7.9	8.3	8.7	9.1
Abbreviated	-	-	-	-	-	-	-	-
1.0 – 2.0	3.9	4.3	4.625	5.1	5.5	5.9	6.3	6.7
0.0 – 1.0	3.7	4.1	4.425	4.9	5.3	5.7	6.1	6.5
Positive %								
0.0 – 0.5	3.5	3.9	4.225	4.7	5.1	5.5	5.9	6.3
0.5 – 1.0	3.4	3.8	4.125	4.6	5.0	5.4	5.8	6.2
Abbreviated	-	-	-	-	-	-	-	-
14.0 – 14.5	0.7	1.1	1.425	1.9	2.3	2.7	3.1	3.5
14.5 or more	0.6	1.0	1.325	1.8	2.2	2.6	3.0	3.4

4.

TABLE 2. How experience rating works:

4.1 Employer A had a negative account balance after higher benefit payments to former employees than contributions to the Trust Fund. Divide Employer A's account reserve balance, which was negative, by wages to determine the reserve account percentage. Employer A's account reserve balance comes to –14%.

4.2 Under schedule "B", a negative 14% has a 7.225% assessment.

4.3 Multiply 7.225% x $10,800 (taxable wage base) = $780, the per/employee cost.

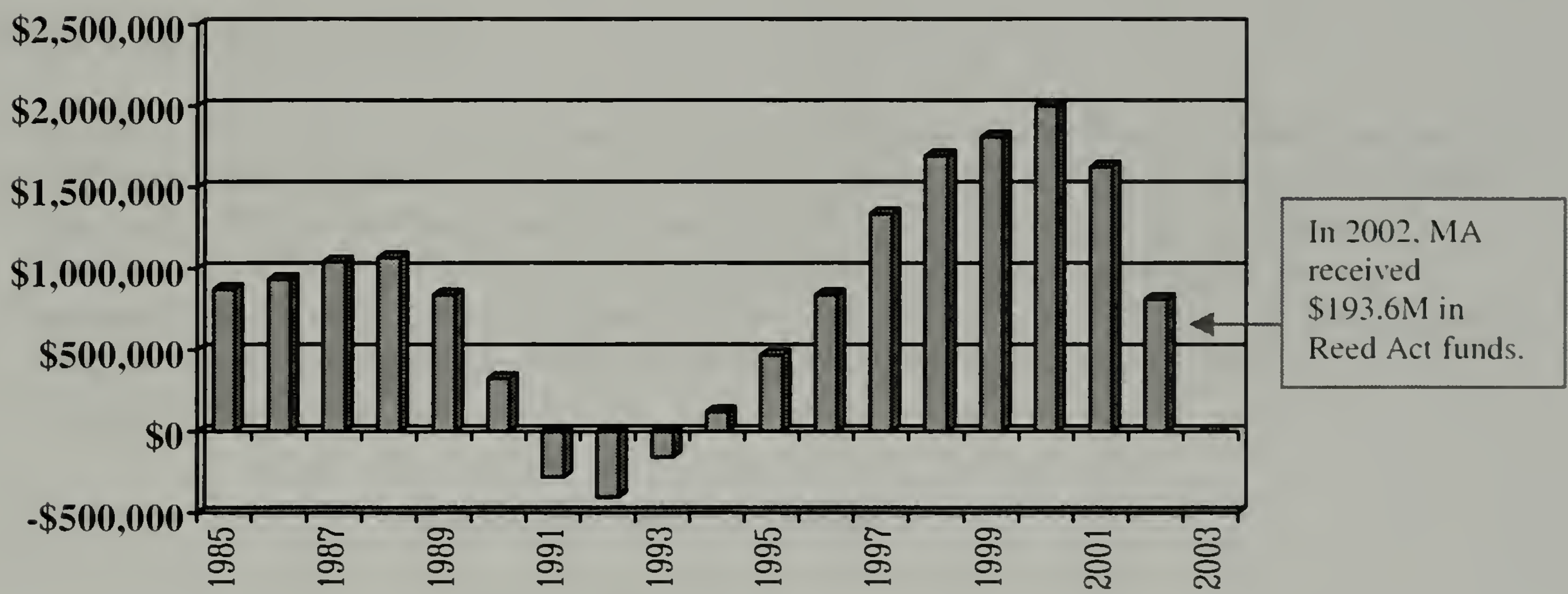
The UI benefit and finance system in Massachusetts is similar to programs in the rest of the United States. Each state has a system of rate schedules and experience rating, although contributions and solvency requirements vary based on the state's economic circumstances. Massachusetts offers a strong benefit package, including the 30-week duration, dependency allowance, and the Medical Security Program. These benefits have proven effective in maintaining consumer spending and allowing unemployed workers to meet basic living needs.

· THE TRUST FUND IS BROKEN ·

The UI Trust Fund, the mechanism through which UI benefits are paid, will soon be insolvent, meaning it has less money than is necessary for benefit payments. The pending insolvency is primarily the result of a deficient finance structure. As wages have grown over the past decade, employers have contributed to the Trust Fund at a steadily decreasing rate. During the recession of the early 1990s, the Trust Fund had negative balances from 1991 to 1993. Strong economic growth and historically low unemployment rates during the late 1990s allowed the Trust Fund to rebound and build a surplus. Over the past two years, however, high wages, decreasing employer contributions, and 21 consecutive months[38] of job losses have drained the Trust Fund's surplus. In several months the state will have to borrow money from the federal government to make benefit payments.

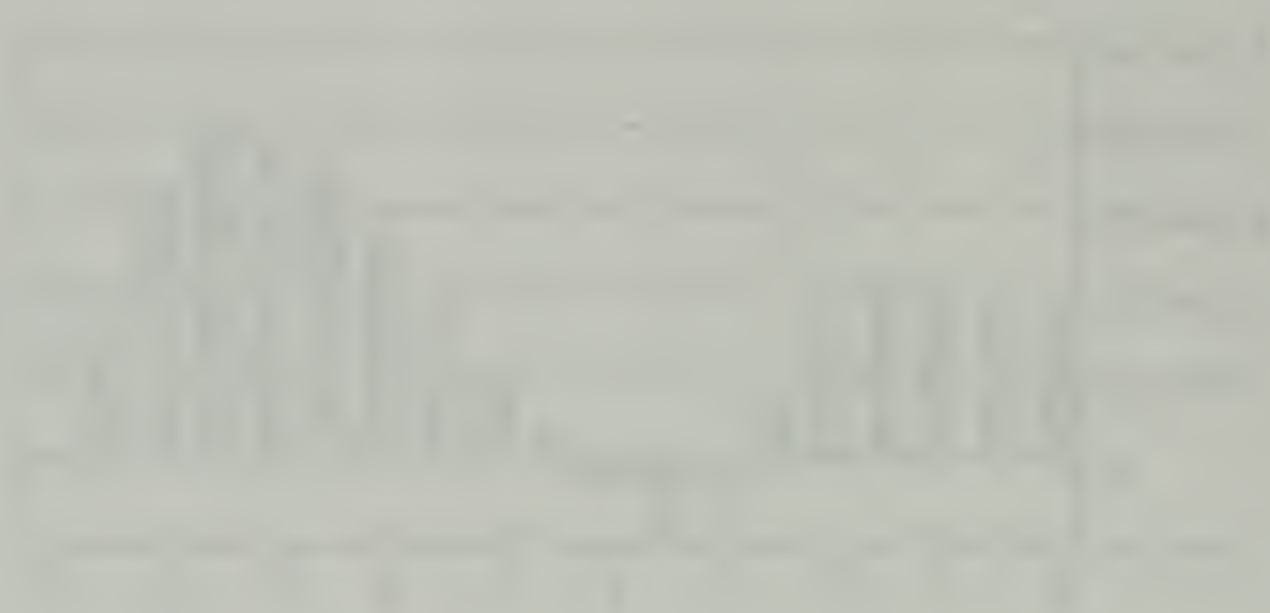
In December of 2000, the Trust Fund had a balance of $2B, but Senate Post Audit and Oversight Committee projections now indicate it will end 2003 with approximately $126M. Additionally, in 2002 the state received $193M in unexpected Reed Act funds in a one-time distribution from the federal government. Without this Reed Act disbursement the Trust Fund would have been insolvent much earlier.

UI TRUST FUND (1985 – 2003)



SOLVENCY

The actual balance of an unemployment insurance trust fund is not as important as other factors. UI is a wage replacement system. Therefore, the 'health' or solvency of a trust fund must be measured relative to wages or benefit payments. "A growing trust fund balance can simply reflect a growing economy, not increased solvency in terms of the overall size of the state's workforce." [39] The two most commonly used solvency indicators are the *reserve percentage* and the *Average High Cost Multiple* (AHCM). The reserve percentage is the ratio of the trust fund balance to the state's total covered wages, essentially providing a snapshot of how much the trust fund has in the bank relative to how much payroll it must cover.



The AHCM measures the duration a trust fund can pay benefits during "moderate" recession-level unemployment. This ratio averages the three highest benefit payment years in the past twenty years and determines how long the Fund could pay benefits at such a level. The DOL and the Advisory Council on Unemployment Compensation recommended a minimum of a 1.0 AHCM, which means a state can pay benefits for one year under such recession conditions.[40] At .59, Massachusetts can pay benefits for only 6 months at "moderate" recession levels before becoming insolvent. This figure is below all New England states as well as the national average of .69.[41]

While the 2002 balance appears to be relatively high, it is important to recognize Massachusetts has among the highest wages in the nation and therefore requires a higher balance to pay this wage replacement benefit. Both of the solvency indicators are below the national average and recommended standards, which reinforces the need to improve the Trust Fund's condition.

Massachusetts UI Trust Fund Solvency Indicators, Sept. 2002[42]

	Reserve Percentage	AHCM
US average	1.11	.69
Massachusetts	1.03	.59
Rank	38th	39th

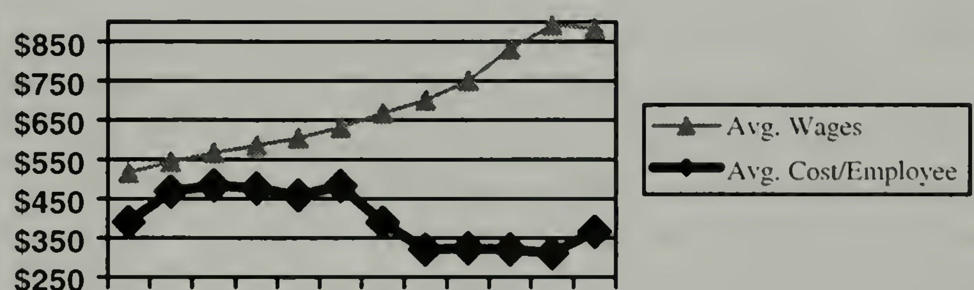
The Department of Labor and the Advisory Council on Unemployment Compensation recommend an AHCM of 1.0.

This reserve percentage has since decreased to 0.7 %.

CAUSES FOR THE DECLINE

The Trust Fund's pending insolvency is a result of the state's inadequate finance mechanism, high wages, and increased unemployment. Massachusetts has not adjusted the taxable wage base since 1992, which has prevented contributions from matching wage growth and, subsequently, benefit payments. In fact, despite substantial wage growth, the average employer UI contributions have decreased from $468/employee in 1993 to $310/employee in 2002. Without a reliable trigger, there is no effective mechanism to link employer contributions to wages.

Employer Costs vs. Wages



While increases in unemployment have exacerbated the Trust Fund's problems, high unemployment is not the primary cause of insolvency. After historically low unemployment rates in the late 1990s, the flaws in the finance system were exposed. Unemployment rates

and benefit exhaustion have increased and therefore placed additional strain on the Trust Fund. During this current recession, unemployment in Massachusetts remains relatively modest. At a 5.3% unemployment rate, Massachusetts is better off than 28 states and below the national average of 5.8%.[43] When the Trust Fund was insolvent in the early 1990s, the state had an unemployment rate above 9%.[44] This suggests the decline of the Trust Fund from 2000 to 2003 is more attributable to high wages and low employer contributions than increased unemployment.

CONSEQUENCES OF INSOLVENCY

The Trust Fund becomes insolvent when Massachusetts is required to borrow from the federal government to pay UI benefits. While borrowing allows employers to postpone payments until a potentially better business climate, it can cost tens, if not hundreds, of millions of dollars in interest payments and lost Trust Fund earnings. In 1992, Massachusetts had to institute additional employer contributions for three years to repay loans and interest from several years of insolvency. During this period employer costs increased from $390/employee in 1992 to $484/employee in 1994.[45]

As the Trust Fund balance declines, Massachusetts sacrifices interest income that could be used to offset employer contributions. In 2000 and 2001, the Trust Fund earned an average of $127M per year in interest[46]. In 2003 and 2004, DET projects $34M and $9M, respectively, in interest income. These foregone earnings alone could increase annual employer costs approximately $30 to $40/employee.[47]

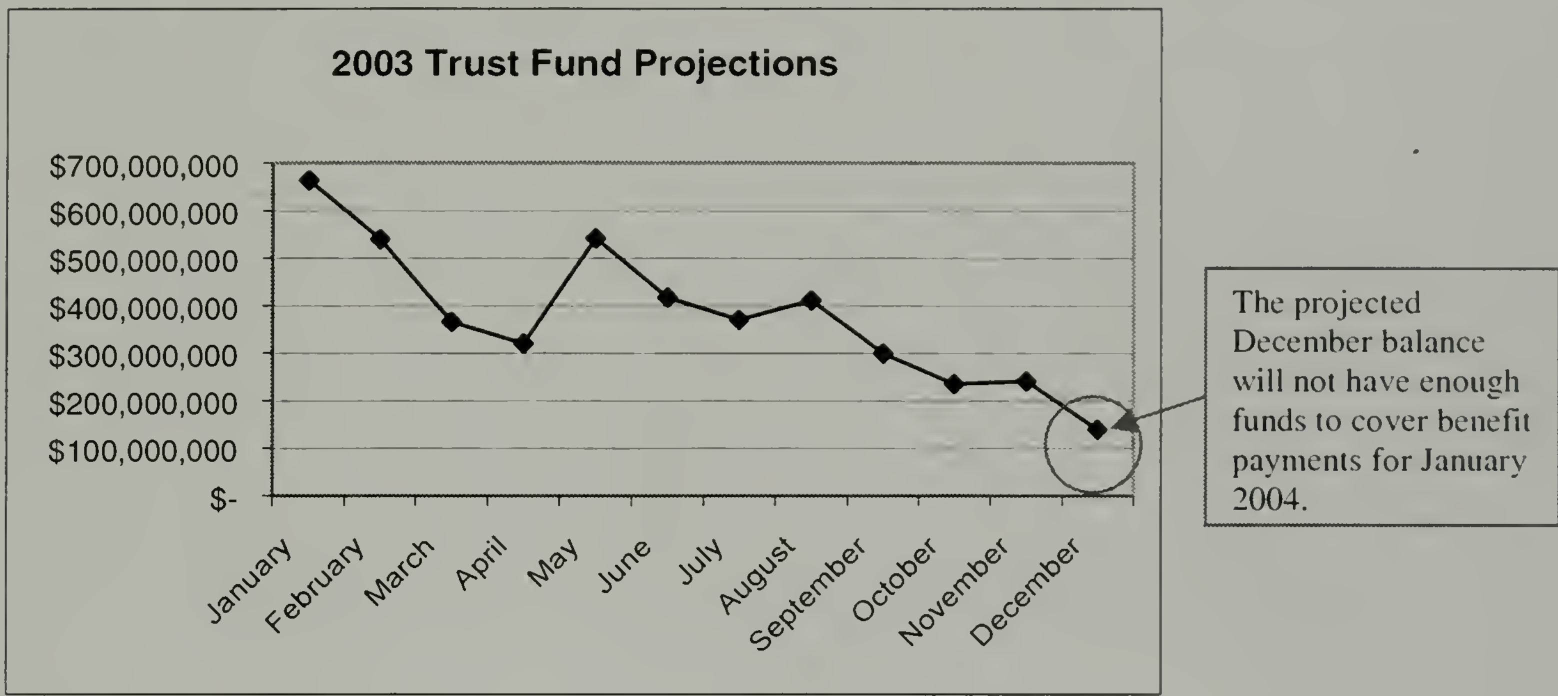
Without structural reforms Massachusetts will continue to face UI funding crises during each economic downturn. The original concept of the unemployment insurance system was to maintain relatively high fund balances during periods of strong economic growth so employers would not face increased costs during a downturn.[48] The General Accounting Office testified the "reliance on loans and general fund advances has eroded the forward funding principle" of UI.[49] Now that the Trust Fund will soon be insolvent, policymakers must either raise employer contributions or cut recipient benefits to fix a broken trust fund.[50]

PROJECTIONS

DET Predictions for 2003 Fund Balance	
Year	'03 Prediction
2000	$2.2b
2001	$2.5b
2002	$976m
2003	$308m

Currently, DET predicts the Trust Fund will recover in 2004 based on a large increase in employer contributions. While the Agency has been a strong steward of the UI program, it recently advocated against changes to the rate schedule despite the precipitous decline of the Trust Fund.[51] In the 2003 First Quarter Trust Fund Report, the agency predicts recovery in 2004, but states "we believe that the current forecast's 2.9% annual wage and salary growth rate must be viewed with some caution, as there is little evidence at this moment of the kind of employment growth, compensation increases, or generalized inflationary pressures that would have to occur either individually or in combination in order to produce this outcome."[52]

The Senate Post Audit and Oversight Committee projects the Trust Fund will end 2003 with approximately $126M, less than half of DET's prediction. Data from the first three months of 2003 suggests benefit payments may be higher and employer contributions may be lower than previously projected. This will deplete the Trust Fund even faster and the state will have to borrow money when the closing balance is less than the following month's benefit payments. The $126M projection for December 2003 is likely to be less than benefit payments required for January 2004. Additionally, the Trust Fund receives low contributions for the first four months of a year, since most employer contributions are not received until May. Therefore, the state could develop a significant deficit in the first four months of 2004.



As projections for the Trust Fund are tied to the unemployment rate, it is critical to monitor job growth and other economic indicators that will impact UI benefit payments. There continue to be mixed signs about economic recovery, but recently DOL reported that February 2003 unemployment rates were significantly higher than expected.[53] A panel of Massachusetts economists indicated the state's consumer confidence is currently at the lowest level since 1992 and the state's job market may not improve until 2004.[54] Any economic forecasts must be viewed with the additional uncertainty created by the war in Iraq, as well as ongoing security concerns. This continued insecurity about economic recovery reinforces the need to rebuild and protect the Trust Fund.

UI TRUST FUND FINDINGS

- *The solvency of the UI Trust Fund is in a state of crisis. Without corrective measures Massachusetts will have to borrow money from the federal government to pay benefits in the next several months.*
- *Two leading solvency indicators demonstrate the Massachusetts UI Trust Fund is below national averages and recommended standards.*
- *Employer UI contributions have decreased 34% over the past six years, which has contributed to the decline of the Trust Fund.*

- *As the Trust Fund balance declines, the state loses tens of millions of dollars in interest earnings.*
- *If the state is forced to borrow through FUA loans, employers may face additional UI taxes to cover principle and interest payments.*
- *Without structural changes to UI finance, the Trust Fund will continue to face periods of insolvency in the future.*
- *Trust Fund insolvency may force policy-makers to either increase employer contributions or cut benefits.*

· FINDINGS & RECOMMENDATIONS ·

· Rate Schedule ·

__FINDINGS__

- *Without reforms, employers will face a "G" schedule for the next three years. In 2004, this schedule will increase employer UI costs by 66%, to $598/employee.*
- *The Legislature has overridden the rate schedule "trigger" in 9 of last 10 years, saving the employer community more than $1.6 billion in UI costs.*
- *Decreases to the reserve percentages will threaten the future solvency of the Trust Fund.*
- *The rate schedule system alone cannot adequately maintain Trust Fund reserves.*

Through rate schedules, the Massachusetts UI system automatically adjusts employer contributions to ensure sufficient Trust Fund reserves. As the taxable wage base has not increased since 1992, the rate schedule is currently the only mechanism to regulate contributions to the Trust Fund on an annual basis (experience rating is an employer-driven cost based on layoffs, but has no connection to increases in employee wages).

Each schedule change increases employer contributions to the Trust Fund by approximately $120M.[55] If the Trust Fund ends 2003 with $126M, the rate schedule will shift from "B" to "G" next year and average employer costs will increase 66%, from $362 to $598. A schedule "G" would have a significant impact on the business climate in Massachusetts and the employer community would most likely lobby against such an increase.

Cuts in Employer UI Costs[56]
1994-2003

Year	"Trigger" schedule	Actual schedule	Employer savings
1994	F	D	$167m
1995	F	D	$184m
1996	F	D	$176m
1997	E	E	$0m
1998	D	C	$97m
1999	C	B	$128m
2000	C	B	$110m
2001	C	B	$104m
2002	D	B	$233m
2003	F	B	$496m
Total			$1.69B

As each schedule change poses substantial new costs to businesses, the Legislature has overridden the UI trigger on numerous occasions over the past decade. As the chart indicates, these overrides have saved the employer community more than $1.6 B over the past ten years.

Employers complain about the "unpredictable" nature of the trigger, as the Legislature generally waits for end of the year balances before making schedule decisions. An indexed wage base that links contributions to wage and benefit inflation each year would provide stability to employers. If employers do not accept rate increases, they may face the need for a different form of annual adjustment.

The employer community has offered reforms that include decreasing the amount of reserves required for each rate schedule. If passed, this would essentially result in a permanent

decrease in employer contributions and a lower standard for Trust Fund reserves moving forward. For 2003, this would have shifted the trigger rate from "G" to "F", saving the employer community more than $100M, but not improving the Trust Fund's balance. This legislation would simply aggravate Massachusetts' Trust Fund solvency problems, which are already among the worst in the nation.

RECOMMENDATIONS

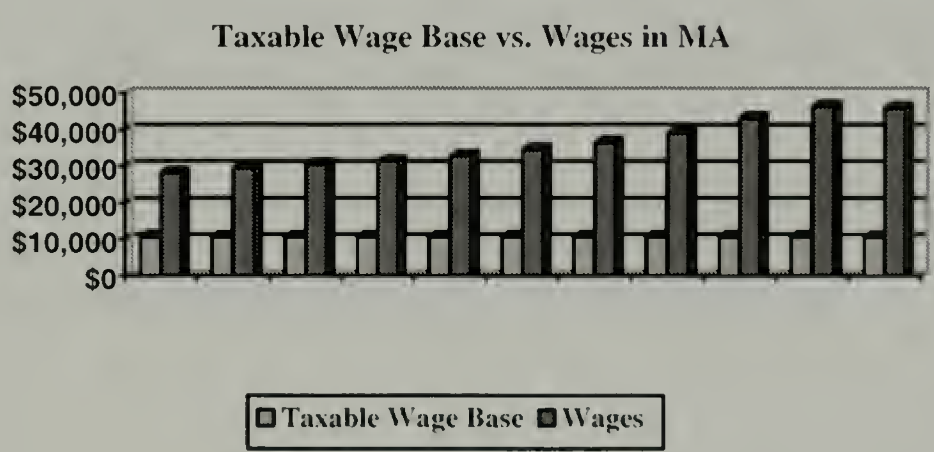
- *The Legislature should adopt finance reforms, such as indexing the taxable wage base, to create more predictable UI costs.*
- *The Legislature should resist proposals to decrease Trust Fund reserve percentages that will worsen solvency concerns.*

FINDINGS

- *UI is a wage replacement benefit and requires a mechanism that will adjust funding as wages increase.*
- *Since 1992, Massachusetts's wages have increased 73%, yet the taxable wage base has not increased accordingly. If the taxable wage base had been indexed to the state average weekly wage it would currently be $18,664, instead of $10,800.*
- *18 other states have an indexed taxable wage base.*
- *14 other states have a higher taxable wage base than Massachusetts, yet only two have higher wages.*
- *Massachusetts' low taxable wage base places a disproportionate burden on low-income employers.*

UI is a partial wage replacement benefit. In order to maintain solvency, employer contributions must be linked to employee wages. This is critical because every year UI benefits are adjusted to reflect such wage increases. The taxable wage base is the only component in the UI system that can be adjusted annually to account for wage fluctuations. There has been no increase in the taxable wage base since 1992, and the Trust Fund has been unable to keep pace with salary inflation. The Massachusetts unemployment rate has been approximately 5% since 2001. During this time, benefit payments have been more than one billion dollars higher than employer contributions.

Over the past 11 years, wages in Massachusetts have increased 73% and experienced the fastest growth in the United States in 2000.[57] The chart below indicates the taxable wage base has decreased from 38% of wages in 1992 to 24% of wages in 2002. As UI is a wage replacement benefit, decreasing contributions place a tremendous strain on the Trust Fund. If not for historically low unemployment rates and benefit outlays in the mid- to- late 1990s, the Trust Fund would have deteriorated much earlier.



The state's low taxable wage base also places a disproportionate burden on low-wage employers. For example, an employer who pays a $20,000 salary is paying UI tax on more than 50% of the employee's wages, whereas an employer who pays a $100,000 salary is paying costs on only 10% of the wages. Therefore, low-wage employers are paying disproportionately higher UI costs than high-wage employers. As employers may decrease wages to offset benefit costs, the low taxable wage base in Massachusetts disproportionately affects low-wage employees. The Advisory Council on Unemployment Compensation states "the low taxable wage base within the Unemployment Insurance System is both regressive and unfair."[58]

The Legislature recognized the low taxable wage base in 1992 and originally increased it to $13,000. This increase was subsequently repealed and the taxable wage base was set at $10,800. In 1992, the $10,800 taxable wage base was 38% of the average wage in Massachusetts. The following table indicates the projected revenue for increases to the taxable wage base.

Impact of Taxable Wage Base Adjustments

Taxable Wage Base	Revenue (Millions)	% of wages
$10,800	$925	24%
$11,800	$990	26%
$12,800	$1,055	28%
$13,800	$1,115	30%
$14,800	$1,175	32%
$15,800	$1,235	34%
$16,800	$1,295	37%
$17,800	$1,355	39%
$18,800	$1,415	41%

Senate Post Audit and Oversight Committee projections based on DET estimates and a Modified Schedule "B"

Massachusetts has the third highest wages in the country, yet the $10,800 taxable wage base ranks 15th. In the Northeast, Massachusetts is lower than Connecticut, Rhode Island, and Maine, and is less than half of New Jersey's taxable wage base.

State	Taxable Wage Base	Average Wages	Indexed
HI	29,300	32.409	Y
WA	28,500	36.936	Y
ID	27,600	30.432	Y
AK	$26,000	40.312	Y
OR	25,000	33.451	Y
NJ	23,500	40.147	Y
UT	22,000	32.069	Y
MN	21,000	36.258	Y
NV	20,900	31.111	Y
MT	18,900	29.259	Y
IA	18,600	31.228	Y
ND	17,400	30.069	Y
NM	15,900	28.368	Y
VI *	15,900	-	Y
NC	15,500	30.951	Y
CT	15,000	41.730	
WY	14,700	31.155	Y
ME	12,000	30.976	
RI	12,000	36.628	
MA	**10,800**	**40.462**	
OK	10,500	30.623	Y
WI	10,500	32.646	
CO	10,000	36.191	
MI	9,500	36.786	
AR	9,000	29.117	
DC	9,000	37.308	
IL	9,000	35.255	
OH	9,000	35.425	
TX	9,000	31.503	
DE	8,500	35.573	
GA	8,500	32.159	
MD	8,500	40.802	
NY	8,500	35.146	
AL	8,000	3.1344	
KS	8,000	32.181	
KY	8,000	31.357	
NH	8,000	37.045	
PA	8,000	35.627	
VA	8,000	36.501	
VT	8,000	31.883	
WV	8,000	30.461	
AZ	7,000	32.231	
CA	7,000	35.880	
FL	7,000	30.882	
IN	7,000	32.680	
LA	7,000	30.953	Y
MO	7,000	32.572	
MS	7,000	29.798	
NE	7,000	30.866	
SC	7,000	31.430	
SD	7,000	28.630	
TN	7,000	30.782	

* Virgin Islands wages not available

Eighteen states have added some form of index to ensure employer contributions match wage growth. In 1992, if the taxable wage base had been indexed to the state average weekly wage, an indicator of benefit growth, it would be $18,664 today. Incremental increases to the Trust Fund could preclude the need for larger one-time cost increases, such as the dramatic escalation the employer community faces next year.

Associated Industries of Massachusetts stated the goal should be "the creation of a stable, fair, cost effective, and predictable system."[59] Indexing the taxable wage base would remove the need for wholesale schedule changes, which can require substantial cost increases for employers with little notice. Instead, employers would have predictable annual increases of less than $20 per employee[60], which would contribute to the forward-funding of the Trust Fund. By matching wage growth, the index would help prevent the crisis in unemployment insurance from repeating in the future.

The Legislature should increase the taxable wage base in 2004 to rectify the disparity between wage growth and employer contributions. This will restore funding to a more appropriate level and will address decreasing employer costs over the past several years.

Increasing the taxable wage base next year and indexing it to the state average weekly benefit will create a funding mechanism with long-term stability and predictability for the employer community. These reforms will restore needed revenue, ensure future benefit payments, and immediately increase the wage base to make up for 11 years without adjustment.

RECOMMENDATIONS

- *Index the taxable wage base to the State Average Weekly Wage.*
- *Adjust the taxable wage base to $13,800 in 2004 and restore the balance between wages and employer contributions to ensure Trust Fund solvency.*

· Experience Rate·

FINDINGS

- *The current experience rating system requires employers with few layoffs to subsidize those with high layoffs.*
- *The "spread" between the positive and negative contribution limits is not sufficient to fairly distribute UI costs.*
- *Changes to the experience rate system can create more parity and better incentives to employers, but will not resolve funding problems.*
- *If experience rate limits are increased too much, employers with seasonal hiring practices will face prohibitively higher UI costs.*

The experience rating system uses a range of tax rates to distribute employer UI costs according to usage. A review of the current system shows almost half of all employer account reserves are at either the minimum or maximum contribution limits.[61] This clearly indicates that the "spread" of the positive and negative limits does not accurately represent employer behavior and as a result does not fairly distribute these costs.

In testimony before the Massachusetts Special Commission on Unemployment Insurance, Michael Widmer of the Massachusetts Taxpayers Foundation stated "because the contributions of the heaviest users of the system are effectively capped, their employees reap $3 in unemployment benefits for every $1 in UI taxes paid by these firms. This cross-subsidization unfairly penalizes over 80 percent of the Commonwealth's employers that maintain positive UI account balances."[62] Additionally, in a *Fragile Progress: Reining in Massachusetts' High Business Costs*, several leading Massachusetts business organizations suggested there is more than $300 million in cross-subsidization of poor employers by responsible employers. Furthermore, this report states "major reform to the experience rating system must be part of any effort to stabilize the system".[63] While changes to the experience rating system would achieve more parity and create better incentives, these changes will not address the fundamental structural deficit of the Fund and its impending insolvency.

COMMITTEE SUPPORTS ALTERNATIVE PROPOSAL

Recently, the DET Advisory Council developed three alternative models to improve the experience rating system. The Senate Post Audit and Oversight Committee supports the "DET Modified Alternative." This proposal increases the maximum positive employer account reserve percentages from 14.5% to 35% and the maximum negative employer account reserve percentages from negative 14% to negative 17%. This proposal will decrease

the number of employers at the minimum and maximum contribution limits to create better distribution of costs.

Effects of New Experience Rate Proposal

Employer Account	% of employers (Current)	% of employers (Proposed)	Cost/Employee (Current)	Cost/Employee (Proposed)
Positive Limit	28.1%	3.3%	$788	$921
Negative Limit	10.9%	5.8%	$143	$46

DET Advisory Council estimates, based on a modified Schedule "B".[64]

The Committee advocates for a moderate increase to the negative maximum account reserve percentage to prevent prohibitively high UI costs for certain employers. The goal of experience rate reform is to better distribute costs and end cross-subsidization, not to impose 'penalties' on poor performers. The Committee is concerned industries with seasonal business trends and hiring practices, such as retail or construction, would be unfairly penalized by a substantial increase of the negative account reserve limit.

Conversely, the Committee opposes the creation of a "zero" rating, which would allow companies with no layoffs to make no UI contributions to the Trust Fund. A "zero" rating creates a "pay as you go" system, rather than an insurance system, which would expose the Trust Fund and contributing employers to additional risk. For example, if an employer makes no UI contributions and then faces unexpected layoffs and/or bankruptcy, the Trust Fund and contributing employers would be entirely responsible for benefit payments to this bankrupt employer's former workers.

<u>RECOMMENDATIONS</u>

- *The Legislature should adopt the "DET Modified Alternative" experience rate reform. This is a moderate approach that effectively distributes UI costs based on an employer's history of layoffs.*
- *Massachusetts should <u>not</u> adopt a "zero" experience rating because it adds considerable risk to the UI system and other contributing employers.*

FINDINGS

- *UI is often the only source of income for recipients and their only means to meet basic living needs.*
- *43% of UI recipients receive less than $250/week in benefits, which is well below the cost of living in Massachusetts.*[65]
- *The composition of the workforce has evolved over the past several decades, and UI benefits and eligibility do not fully reflect these changes.*
- *UI is an effective economic stimulus that maintains consumer spending during recessionary periods.*
- *Benefit reductions do not greatly contribute to increasing Trust Fund solvency.*
- *Investment in job training reduces the term of unemployment, builds a skilled workforce, and contributes to long-term Trust Fund solvency.*

The primary intent of UI is to provide involuntarily unemployed workers with enough temporary assistance for basic living needs during a job search. By maintaining consumer spending, UI effectively meets the program's other major goal of stimulating the economy during recessions. Benefits are too often only talked about in terms of their cost to employers, yet UI plays a critical role to both society and the economy.

Many states look to restrict eligibility and cut benefits during economic downturns, but Massachusetts should not embrace this option. In interviews with the Committee, numerous recipients stated UI was their only source of income, and the program allowed them to build skills and return to the labor force more quickly. While benefits were only half of their previous income, they spent these funds almost exclusively on food, clothing, shelter and other basic living necessities.

BENEFITS ARE NOT OVERLY GENEROUS

Recognizing the social and economic value of unemployment insurance, Massachusetts has made a strong commitment to unemployment insurance benefits. By instituting the alternate base period and dependency allowance, the state is ensuring workers can live and support their families during periods of unemployment. This is not an overly generous program or even a form of welfare. It is an insurance program that provides a basic level of assistance to ensure the unemployed can afford food and housing during a temporary job search.

When compared to the rest of the nation, Massachusetts initially appears to provide a generous benefit package, but it is important to remember that UI is a wage replacement system.

- Massachusetts has the third highest wages in the nation, which is the primary driver of the state's benefit levels.

- Only 22% of UI recipients receive the maximum benefit, and almost half receive $250 or less per week."[66]

- Boston is well above national cost of living standards[67], and requires at least $3,350/month for living expenses for a family of four in urban areas.[68]

- Massachusetts provides four weeks of benefits more than other states, but has not had to pay for these weeks in more than one year. Federal extensions cover these four weeks during times of high unemployment. Cuts to the duration of benefits in Massachusetts will have a minimal impact on the Trust Fund balance.

- Eligibility restrictions, such as increasing the required number of weeks of employment in a calendar year, will adversely affect the changing workforce, especially part-time workers.

- "Nearly one-third of U.S. families will be unable to replace even 10 percent of their lost earnings from their savings during a spell of unemployment. For many of these families UI benefits represents the difference between stifling debt and financial security." [69]

ECONOMIC STABILIZER

By maintaining the purchasing power of unemployed workers during a recession, UI is a proven economic stabilizer. Based on the countercyclical nature of the program, benefit payments are granted to people and areas most affected by an economic downturn. Below are statements from leading policy-makers, economists, and organizations about the necessity of a strong UI program:

- "UI provided reasonable purchasing power while still maintaining incentives to return to work, and with proper funding, the program will continue to be the economic stabilizer that it has been in the past." *United States Department of Labor*[70]

- "The primary purposes of the UI system are to provide the unemployed with a temporary source of income as well as to act as an economic stimulus during periods of economic decline". *United States General Accounting Office*[71]

- "Tax cuts and extended unemployment insurance provided a timely boost to disposable income." *Alan Greenspan, Chairman, Federal Reserve Bank* [72]

- "The Unemployment Insurance system also serves as an important macroeconomic stabilization role by injecting money into the economy during periods of downturn. This objective, however, can only be achieved effectively if the system is forward-funded, thereby accumulating funds during periods of economic health." *Advisory Council on Unemployment Compensation*[73]

- "Every dollar spent on UI translates into $2.15 of economic activity in the states". *United States Department of Labor*[74]

- "Estimates indicate that, in the absence of UI benefits, recessions (as measured by the real decline in gross domestic product) would have been 15% deeper." *Lawrence Chimerine Ph.D. Managing Director and Chief Economist, Economic Strategy Institute (ESI)*[75]

- "One of my first priorities for the new Congress will be an extension of unemployment benefits for Americans who need them". *President George W. Bush*[76]

EVOLVING WORKFORCE

Massachusetts needs to ensure that UI benefits reflect the changing nature of the workforce. Today's labor market is much more diverse, consisting of part-time workers, multiple jobholders, single mothers and people transitioning from welfare. To recognize such changes, the Legislature should adopt the following reforms:

1. Claimants should be allowed to present "good cause" arguments for part-time employment, such as childcare needs.
2. The constructive deduction regulation should be eliminated, to avoid penalizing those with multiple jobs.
3. Massachusetts should establish UI eligibility for displaced spouses of active military personnel, including assistance during relocation. DET should develop additional regulations to assist unemployed spouses of military personnel in time of war.
4. Dependency allowance regulations should grant DET discretion to accommodate non-primary parents who are unemployed at separate times.

TRAINING

While there are many success stories associated with Massachusetts' training program, it also has its host of limitations. Without job training, many people who are now losing their jobs will have reduced chances of re-employment.[77] "Under funding [training] threatens the integrity of the system and costs more in the end."[78] The Legislature should adopt the following reforms:

1. Extend eligible Section 30 training programs from one to two years, which would help to include many technical and community college courses.
2. Provide "good cause" exceptions for recipients that apply for Section 30 programs after the 15-week deadline.

MEDICAL SECURITY PLAN

With recent cuts to the MassHealth Basic program, the uncertain future of the Uncompensated Care Pool, and the prohibitively high non-group insurance market, the Medical Security Plan is a critical insurance option for the unemployed. There are certainly many worthwhile and competing needs for the Medical Security Trust Fund, especially in light of the current fiscal environment. However, withdrawals for unintended purposes threaten the very existence of the Medical Security Plan.

DET has been an effective manager of the unemployment insurance program in Massachusetts. This agency must continue to improve outreach and coordination to ensure eligible recipients are aware of UI programs, such as the MSP and Section 30 training. The Rapid Response Team has been a strong independent agency that provides information and services quickly in the event of large layoffs. Successful outreach will improve awareness of UI, help maintain consumer spending, and return the unemployed to the workforce more quickly.

RECOMMENDATIONS

- Maintain current eligibility standards to ensure the effectiveness of UI benefits as an income support program and an economic stimulus.
- Maintain benefit levels to ensure that recipients are able to afford basic living requirements during a job search.
- The Legislature should provide DET with flexibility to accommodate changes in the workforce, including improvements in eligibility for workers who seek part-time work and multiple job-holders.
- Expand Section 30 regulations to cover two-year training programs, and provide "good cause" extensions for applications.
- Protect funding for the MSP to ensure the program's viability.
- Massachusetts should establish UI eligibility for displaced spouses of active military personnel, including assistance during relocation. DET should develop additional regulations to assist unemployed spouses of military personnel in time of war.
- The Legislature should increase fraud provisions, including additional penalties and a hotline to ensure that limited UI funds are spent appropriately.
- DET should continue to improve the outreach and coordination for UI programs. The Rapid Response Team has proven a valuable independent agent for unemployed workers, especially during large layoffs.

DET predicts there will be $1.335B in benefit payments in 2004 and current revenues are $925M/year at the modified schedule B.[79] There will be a funding deficit in excess of $400M in 2004; therefore, the Legislature must consider the following:

	Reforms	**2004 Revenues (M)**
Option A	Schedule C 2003 surcharge Adjust wage base to $13,800 Index wage base Total	$130 $30 $190 $30 $380
Option B	Schedule D Adjust wage base to $13,800 Index wage base Total	$250 $190 $0 $440
Option C	Increase wage base to $18,800	$490
Option D	Schedule G	$610

The Senate Post Audit & Oversight Committee recommends either Option A or B, which are responsible approaches to restore Trust Fund solvency and compensate for substantial employer cost decreases over the past decade. Without these reforms, the Commonwealth runs the risk of an insolvent Trust Fund, overwhelming costs increases for employers, and cuts to this vital safety net for workers. Action is needed immediately to fix this broken trust.

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Step 1: Calculating Your Average Weekly Wage

The two quarters in your base period in which you were paid the highest wages are added together, then divided by 26 (the number of weeks in two quarters) to determine your average weekly wage.

Example: Earnings for four quarters:
1st Quarter: $4500
2nd Quarter: $5000
3d Quarter: $4500
4th Quarter: $8000
Total: $22,000

The quarters with the highest wages paid are the 2nd and 4th quarters for a total of $13,000. When this amount is divided by 26, the average weekly wage is $500.

Step 2: Calculating Your Benefit Rate

Your average weekly wage is divided in half. This is your "benefit rate."
Example: $500 average weekly wage divided by two = $250.

Step 3: Calculating Your Benefit Credit

The total amount of benefits you can receive in your benefit year is called your "benefit credit" and is the lesser of two amounts, either:

- 30 times your weekly benefit rate, or
- 36 percent of the total earnings in your base period.

Example:

- 30 X $250 = $7500, or
- 36% X $22,000 = $ 7920

In this example the benefit credit would be $7500

Step 4: Calculating Your Duration of Benefits

The duration of benefits is calculated by dividing your benefit rate into the total amount of benefits you may be eligible to collect.
Example: $7500 divided by $250 = 30 week

Source :www.detma.org

EXPERIENCE RATE TABLE
UNEMPLOYMENT COMPENSATION FUND

Employer Acct Reserve %	AA 3.0% and over	A 2.6% or more but less than 3.0%	B 2.2% or more but less than 2.6%	C 1.7% or more but less than 2.2%	D 1.4% or more but less than 1.7%	E 1.1% or more but less than 1.4%	F 0.8% or more but less than 1.1%	G less than 0.8%
Negative Percentage								
14 or more	6.5	6.9	7.225	7.7	8.1	8.5	8.9	9.3
13.0 but less than 14.0	6.3	6.7	7.025	7.5	7.9	8.3	8.7	9.1
12.0 but less than 13.0	6.1	6.5	6.825	7.3	7.7	8.1	8.5	8.9
11.0 but less than 12.0	5.9	6.3	6.625	7.1	7.5	7.9	8.3	8.7
10.0 but less than 11.0	5.7	6.1	6.425	6.9	7.3	7.7	8.1	8.5
9.0 but less than 10.0	5.5	5.9	6.225	6.7	7.1	7.5	7.9	8.3
8.0 but less than 9.0	5.3	5.7	6.025	6.5	6.9	7.3	7.7	8.1
7.0 but less than 8.0	5.1	5.5	5.825	6.3	6.7	7.1	7.5	7.9
6.0 but less than 7.0	4.9	5.3	5.625	6.1	6.5	6.9	7.3	7.7
5.0 but less than 6.0	4.7	5.1	5.425	5.9	6.3	6.7	7.1	7.5
4.0 but less than 5.0	4.5	4.9	5.225	5.7	6.1	6.5	6.9	7.3
3.0 but less than 4.0	4.3	4.7	5.025	5.5	5.9	6.3	6.7	7.1
2.0 but less than 3.0	4.1	4.5	4.825	5.3	5.7	6.1	6.5	6.9
1.0 but less than 2.0	3.9	4.3	4.625	5.1	5.5	5.9	6.3	6.7
0.0 but less than 1.0	3.7	4.1	4.425	4.9	5.3	5.7	6.1	6.5
Positive Percentage								
0.0 but less than 0.5	3.5	3.9	4.225	4.7	5.1	5.5	5.9	6.3
0.5 but less than 1.0	3.4	3.8	4.125	4.6	5.0	5.4	5.8	6.2
1.0 but less than 1.5	3.3	3.7	4.025	4.5	4.9	5.3	5.7	6.1
1.5 but less than 2.0	3.2	3.6	3.925	4.4	4.8	5.2	5.6	6.0

2.0 but less than 2.5	3.1	3.5	3.825	4.3	4.7	5.1	5.5	5.9
2.5 but less than 3.0	3.0	3.4	3.725	4.2	4.6	5.0	5.4	5.8
3.0 but less than 3.5	2.9	3.3	3.625	4.1	4.5	4.9	5.3	5.7
3.5 but less than 4.0	2.8	3.2	3.525	4.0	4.4	4.8	5.2	5.6
4.0 but less than 4.5	2.7	3.1	3.425	3.9	4.3	4.7	5.1	5.5
4.5 but less than 5.0	2.6	3.0	3.325	3.8	4.2	4.6	5.0	5.4
5.0 but less than 5.5	2.5	2.9	3.225	3.7	4.1	4.5	4.9	5.3
5.5 but less than 6.0	2.4	2.8	3.125	3.6	4.0	4.4	4.8	5.2
6.0 but less than 6.5	2.3	2.7	3.025	3.5	3.9	4.3	4.7	5.1
6.5 but less than 7.0	2.2	2.6	2.925	3.4	3.8	4.2	4.6	5.0
7.0 but less than 7.5	2.1	2.5	2.825	3.3	3.7	4.1	4.5	4.9
7.5 but less than 8.0	2.0	2.4	2.725	3.2	3.6	4.0	4.4	4.8
8.0 but less than 8.5	1.9	2.3	2.625	3.1	3.5	3.9	4.3	4.7
8.5 but less than 9.0	1.8	2.2	2.525	3.0	3.4	3.8	4.2	4.6
9.0 but less than 9.5	1.7	2.1	2.425	2.9	3.3	3.7	4.1	4.5
9.5 but less than 10.0	1.6	2.0	2.325	2.8	3.2	3.6	4.0	4.4
10.0 but less than 10.5	1.5	1.9	2.225	2.7	3.1	3.5	3.9	4.3
10.5 but less than 11.0	1.4	1.8	2.125	2.6	3.0	3.4	3.8	4.2
11.0 but less than 11.5	1.3	1.7	2.025	2.5	2.9	3.3	3.7	4.1
11.5 but less than 12.0	1.2	1.6	1.925	2.4	2.8	3.2	3.6	4.0
12.0 but less than 12.5	1.1	1.5	1.825	2.3	2.7	3.1	3.5	3.9
12.5 but less than 13.0	1.0	1.4	1.725	2.2	2.6	3.0	3.4	3.8
13.0 but less than 13.5	0.9	1.3	1.625	2.1	2.5	2.9	3.3	3.7
13.5 but less than 14.0	0.8	1.2	1.525	2.0	2.4	2.8	3.2	3.6
14.0 but less than 14.5	0.7	1.1	1.425	1.9	2.3	2.7	3.1	3.5
14.5 or more	0.6	1.0	1.325	1.8	2.2	2.6	3.0	3.4